

## APPLICATION OF FUNDRAISING FUNDING IN MORAVIAN-SILESIAN NON-PROFIT ORGANIZATIONS

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**Abstract:** Non-governmental organizations, especially non-profit organizations, have a very important role in society. These organizations are an integral part of all developed democratic societies, being a kind of institutionalized form of civil society and fulfilling important social, economic and political tasks in society by means of providing services. The mission of social work is provision of social services to individuals, families, groups or communities. This paper illustrates significance, methods of fundraising and funding in non-profit organizations of social services. The theoretical part is focused on the terms regarding to non-profit organizations of social services, fundraising and funding of the non-profit organizations. In the research part are evaluated the used methods of fundraising and financial sources of non-governmental unprofitable organizations engaged in the social work in the district of Moravian-Silesian.

**Keywords:** non-profit organization, social services, funding, fundraising, financial sources

**JEL Classification:** G39

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### INTRODUCTION

In every society, non-profit organizations, and namely those concentrating on social work, play an important role. These organizations are an integral part of all developed democratic societies, being a kind of institutionalized form of civil society and fulfilling important social, economic and political tasks in society by means of providing services, but also being employers and advocates of individual citizens. (Bachman, 2012).

To register and run the non-profit organization first of all funds are required, therefore, fundraising should be part of work of every non-profit organization. Thus, fundraising can be regarded as a systematic activity the result of which are, in particular, funds for operation of an organization or an individual. In this case the organizations is, as a rule, the non-government non-profit organization, organization financed by the state budget or the organization cofinanced by the state budget (school, hospital, social welfare organization).

Sources of funding depend on a number of factors related to the type of services provided and to the service provider. Therefore, it is

important to know what sources of funding are used by the social service NGOs.

The main purpose of research conducted by the author in social service NGOs in the Moravian-Silesian Region in 2015/2016 was to establish whether fundraising was relevant for the organization, whether the organization is using the fundraising planning, what forms of fundraising is used by the organization and how the organization evaluates the efficiency of fundraising. To establish that research objective I have used the qualitative research strategy, where the case study method seems to be the most appropriate research strategy. Data have been obtained by semi-structured interview and participant observation method.

### 1. NON-PROFIT ORGANIZATIONS IN SOCIAL WORK

The essence of social work is particularly help to people to deal with problems and difficult life situations, as well as to find a way out of a hopeless situation. The mission of non-profit social work organizations is provision of social services to individuals, families, groups or communities. Not only within the Czech

Republic but also in other countries, social problems are deepening and they need to be addressed while trying to eliminate them. Especially in the Moravian-Silesian Region, unemployment and social exclusion have become a phenomenon. Therefore, the field of social work is perceived as crucial for renewal of the classic functions of society.

Social work is mainly implemented in the area of social services, including public services, and it is important to support their function, development and quality of the provided services. The basic forms of provision of social services in the Czech Republic are defined in the Act on Social Services and they comprise:

- social counseling which is provided free of charge to all people in a difficult life situation,
- social care services which are provided with a view to ensuring the basic needs of a human being who needs care of another person,
- social prevention services which are designed to prevent and avoid social exclusion of persons threatened by socially negative phenomena. (Bílá kniha, 2013).

The function and quality of these services rest primarily on their financing. The main principle of financing of social services is multi-source funding. Sources of financing are dependent on many factors related to the service provided, i.e. the product and its provider, according to the provider's legal form. Sources of financing of social services are represented mainly by:

- financial means from public budgets,
- care allowance,
- clients' payments for provided services,
- payment of nursing and rehabilitation care from health insurance sources
- revenues from ancillary activities
- revenues from donations,
- subsidies, grants.

These resources are always limited, and organizations of social services are regularly confronted with a lack of funds. In the Czech

Republic, there is a trend of a continuous decline in financial means derived from public sources. Therefore, a greater emphasis is laid on obtaining other financial resources and on skills of the organization to manage them expediently and effectively. (Bachman, 2011).

## **2. FUNDRAISING IN NON-PROFIT SOCIAL WORK ORGANIZATIONS**

Fundraising of nonprofit organization is a group of various activities, methods and techniques to raise funds and other resources (e.g. information, time and expertise of volunteers) required for the activity of an organization.

However, it is worth bearing in mind that fundraising is not only about how to raise funds required for the organization to survive a short period of time. It is mainly about whether or not the organization will be viable, stable and sustainable in the future.

Fundraising includes especially the below activities:

- Planning, i.e. preparation of the fundraising plan, cooperation with the economist to prepare budgets and to monitor how these plans are fulfilled, preparation of communication methods with donors, regular assessment of fundraising, participation in strategic planning and managing an organization.
- Administration, i.e. record keeping for projects, running a donor database, preparation of final and interim reports, preparation of documents for the Governing Board meeting, cooperation in preparing new projects.
- Communication, i.e. representing the organization, communication with donors, preparation and distribution of fundraising documents.

Raising funds is a long time process, which should start with efficient planning and end with detailed evaluation of the efficiency of methods used. (Šedivý, Mendlíková, 2011).

The main ways of raising donations are for example formal addressed or unaddressed

letter, announcement of public collection, fundraising event, personal letter or telephone call, written application for a grant, „door to door“ fundraising, street fundraising and personal visit.

### **2.1 Sources of fundraising in non-profit social work organizations**

For the non-profit social work organization maximum diversification of sources from which it gets funds for all its activities is most appropriate. If the organization focuses on a single main donor that donates the bulk of finance it becomes largely dependent on the donor, and a single rejected request may cause a financial crisis in the organization. Therefore, it is highly desirable to broaden the fundraising base by acquiring more donors. (Ledvinová, 2013).

#### **Fundraising sources may be classified into several groups.**

##### **Corporations and entrepreneurs**

These donors are motivated mostly by business interests, and place more focus on philanthropy and sponsorship. They are mostly willing to fund uncontroversial and safe topics and the duration of funding may be up to three years. Responsibility for making a decision on a donation lies, as a rule on, with a key person or a group of persons consisting of company representatives. The reciprocity principle is also used here. Some big corporations have already their own grant system or the corporate social responsibility concept. Application for a financial contribution must be made in writing, with a description of the project, its budget and information on the mission and goals of the organization.

##### **Foundation and foundation funds**

These donors do not make in-kind donations, only monetary donations. They have their own policy based on which they make donations, however, the basis are the predefined rules. In case of foundations and foundation funds you have to focus on their priorities, which are most often the help in solving life's problems and emergency assistance. If the foundation is interested in funding a project, it may give donations over a period of up to 5 years. For these donations no „excessive“ administration

is needed, foundations rather require positive message saying that their donations really helped the project. Foundation sector in the Czech Republic is relatively large and active in many areas.

##### **Public sources – national government and local government**

Organizations may raise funds from public sources in form of subsidies, public sector contracts, legal state aid (churches and religious societies), or indirectly in form of a system of tax exemptions. This source of funding is characterized by excessive bureaucracy lead by a strict policy. Often complex applications have to be prepared and complicated forms have to be completed. An advantage is a broad range of possible donations. Also retroactive financing is possible, i.e. the nonprofit gets all the funds after the project. Therefore, the nonprofit organization must have enough funds to prefinance the project on its own. This trend is most noticeable in the area of Structural Funds. Also the partnership with other organizations or collaboration with other entities is often required.

##### **Individuals**

Donations given by individuals often depend mainly on emotional empathy. It is all about supporting a good cause. Individuals rarely expect any compensation. Mostly it is a short term form of funding, a single contribution, which is in most cases unplanned. Individuals are, as a rule, most affected by a person who asks them to donate, therefore thorough preparation of volunteers or professionals who work with individuals cannot be forgotten. It is appropriate to take into account the pyramid of donors, which tells what is the ratio between the work with an individual donor and the amount of funds levied. This category of sources includes also membership dues for those organizations which are established as membership-based nonprofits. Here, on the contrary, it is a regular planned source of funding.

##### **Organization's own activities**

This category includes the sale of own products, income from other business or complementary activity, income from other

events such as auctions, raffles, flea markets, balls, etc. (Hloušek, Hloušková, 2011).

## **2.2 Fundraising efficiency**

Because of goals which have to be reached through fundraising efforts at the nonprofit organization, it is important not only to plan fundraising, but also to measure its success.

To measure the efficiency several indicators may be used. The most important one is the return on investment. In simple terms, it is a ratio between the revenue generated by a specific fundraising idea or fundraising method and costs of the fundraising effort.

The costs include not only direct fundraising expenses, and also time spent by the organization and the corresponding share of operating costs (rent, power consumption, telephone fees). So one can have a clear idea of what costs have to be incurred to generate certain revenue.

The higher indicator, the better the method. Return on investment depends to a large extent on the organization and its line of activities. If the organization starts fundraising, it may happen that the return on investment will be relatively low, because it is more difficult to attract new donors, than to convince the existing donors to continue donating.

Another indicator is the net income indicator. It is an amount of money actually received by the organization through fundraising efforts. Addressing a small group of people by direct mail may be very cost effective but it generates very low income. On the contrary, successful fundraising event may include considerable costs but it generates high income.

If the organization focuses on high return on investment only, it may happen that it achieves low income, although in a very efficient way. On the contrary, focusing on net income only can lead to poor efficiency, and the annual accounts then shows that the organization incurs high fundraising costs. Therefore, it is advisable to combine both indicators. Organizations which evaluate all components of their fundraising efforts are able to decide how efficient their fundraising is and what were the costs of income the organization has generated.

Organizations carrying out big fundraising campaigns often follow another two indicators.

The first one is the percentage of returned responses – response rate. For direct mails, collections and other fundraising methods it is important to have an idea how many of those approached will perhaps agree to participate. The response rate is a ratio of the number of respondents to the number sampled. This indicator helps the organization decide whether or not the chosen approach is better than the previous one, and if the percentage of responses is higher, the organization raises, of course, more money. However, success depends also on the amount donated by each donor. It is an indicator of average amount of donation. (Rektořík, 2010).

## **3. FUNDRAISING IN MORAVIAN-SILESIA NON-PROFIT SOCIAL WORK ORGANIZATIONS**

The author does fundraising research with her students already several years. Basic knowledge of fundraising principles and techniques grew almost by 30%, and fundraising activities rose by 18% over the recent 3 years in the organizations examined.

The research included social service NGOs or resocialization NGOs with the registered seat or branch in the Moravian-Silesian Region, employing 5 – 30 permanent employees. All of them have been involved also in previous research projects conducted by the author and cooperate actively with students of the social studies faculty, both in form of vocational trainings or topics of master's thesis or bachelor degree dissertation.

Since only 15 out of 65 social service NGOs contacted in the Moravian-Silesian Region agreed to participate in the research, the research results are somewhat limited and difficult to generalise. Nevertheless, it can be observed that the results of research in the Moravian-Silesian Region differ to some extent not only from the results of national research referred to in the study of authors Pospíšil, Prouzová, Almani – Tůmová, namely, in particular, in terms of the frequency of using particular funding sources, fundraising tools and planning, but also from the results of earlier research projects conducted by the author. (Pospíšil, 2013), (Prouzová, 2014).

Fig. 1: Moravian-Silesian region



Source: <http://www.msk.cz/cz/mapy>

### 3.1 Research methodology

With respect to the large complex of activities representing fundraising of social work organizations and the ensuing research questions, the author opted for a qualitative research strategy to determine the degree of practical application of the fundraising tools in activities of the organizations.

The research aims at determining whether fundraising is relevant to the organization, whether the organization uses fundraising planning, what type of financial resources the organization uses, what raise funds methodology the organisation uses and in what way the organization evaluates the effectiveness of fundraising.

The research questions were compiled on the basis of assessment of the current practices and available literature. They are formulated with a view to meeting the research objectives by their answers.

For the purposes of the research, the method of case study was applied. The method of purposeful selection of the research sample was chosen for the research. In the presented research, the following sample selection criterion was determined - research participants are providers of social services and provide more than 1 social service. The research sample was selected on the basis of the determined research objective. Organizations providing social services in the Moravian-Silesian Region were contacted. Information about organizations providing social services was obtained from the Catalogue of Social Services which is found on the website of the Regional Authority of the Moravian-Silesian Region. For the purposes of the research, all the selected organizations providing social services were sent an e-mail with a request for active participation in the research. Out of sixty-

five contacted organizations, only 15 organizations responded positively.

The method of qualitative interview, specifically a semi-structured interview and participant observation, was chosen as the best method to obtain data. In order to record data, audio recording was used. Then the data were written down and their transcription was made. Subsequently, data segmentation into analytical units and their encoding were performed. To analyze the transcribed interviews, open coding was used. For the purposes of the research, the cluster formation method was applied. Based on similarities and recurring characters, the clusters were classified into categories and labelled with a more general name. These categories also form the research questions which were determined before setting out into the field. The next step was axial coding. As part of the coding, differences among the individual categories were observed. (Hendl, 2012).

### 3.2 Research results

Here, the results obtained through an analysis of the implemented interviews within the case study are presented. Due to the limited space of this article, interpretation of the obtained data is not supplemented with citations by the individual communication partners, and coding tables and categorization are not given, either. The author has filed everything and it may be submitted at any time upon request.

The conclusions are summarized by the individual research questions.

#### 1. How many and what kinds of social services does the organization provide?

Services in all 15 surveyed organizations are provided as registered social services. 6 organizations provide only 2 social services at the same time, it is operation of a home for seniors and a home with a special regime for

chronically mentally ill people or shelters for men released from serving a prison sentence and for homeless people. 3 organizations provide 3 social services, consisting in personal assistance, nursing services and social-therapeutic workshops. Most of the facilities, i.e. 9, provide 4-6 services which are mostly services of professional social counselling, operation of a low-threshold facility for children and youth, including detached workplaces, or various social-activation services, social prevention services, further services of substitute family care, shelters, especially for mothers with children and shelters for men, also halfway houses, further social-activation services, services for foster families, homes with nursing care, nursing care, sheltered housing, day care centres, respite services, contact centres. The most extensive range of services is provided by Silesian Diaconate, operating 96 services divided into 23 areas.

## **2. Who guarantees fundraising in the organization?**

The decision on the approach to fundraising planning and implementation is based on the organizational structure of a particular organization, which means in practice that main responsibility lies with management of the organization. In nine organizations, activities of management and of the board of directors (management board, executive committee) are roughly balanced. In six organizations, that have high annual budgets the board of director's activity is much lower, whereas activity of management rises. Fundraising activities themselves are controlled, mostly, by top managers of the organization, but these positions become specialized gradually, and management of fundraising passes to professionals fundraisers or fundraising teams (in five organizations), while in ten organizations fundraising is carried out by volunteers.

## **3. Practises fundraising planning in the organization?**

At present time only one third of organizations prepare a fundraising plan, but half of organizations at least develop or consider a specific fundraising strategy. It is impossible to talk about strategic fundraising planning in this

respect in any of the surveyed organizations. The surveyed organizations mostly do not implement long-term financial planning, and they justify it by stating that most of the subsidies are annual and contributions from state funds are annually reduced, and therefore one cannot think in long-term categories.

## **4. How many and what sources of financing does the organization use?**

All surveyed organizations use multiple sources of funding. Each of them uses at least 3 financial resources - various forms of subsidies are prevalent - from the Ministry of Labour and Social Affairs, from the town or regional budget, or as the case may be European grants, further contributions from the founder and payments from clients. Organizations established following Christian principles, such as Silesian Diaconate, Diocesan Charity of Ostrava-Opava, but also others largely use funding from various foundations and endowment funds, collections, donations and sponsorships, too. None of the surveyed organizations collects membership dues. The organizations reported revenues from ancillary activities - especially from lease of non-residential premises, payments of medical services covered by health insurance and grants as additional sources of funding. 4 organizations also provided information on the percentage representation of the individual resources.

## **5. What is the methodology of fundraising?**

Social work organizations connect fundraising for their activities in particular with their own work, relying however, to a large extent, on „assistance from above“, especially subventions. Approximately third of organizations carry out additional, supplementary activities to raise funds for their operation. Their fundraising activities are based mainly on „selling“ own activities to local, regional or other authorities. For fundraising most organizations prefer direct contact, such as personal visit, mail, speaking with donors on the phone or public speaking to recruit new donors, request for grant. Less-preferred method of communication with donors is advertising, mainly because of its financial cost. Contact with donors is carried out by

organizations based on data from their own donor database, or from publicly accessible databases. Most examined organizations understand the importance of PR activities, and more than half of organizations consider them an essential form of support to fundraising, therefore they pay much attention to them. In doing so, they focus in particular on issuing promotion materials, but also on organization of public events and media campaigns.

#### **6. How is evaluation of fundraising implemented in the organization?**

One-half of organizations evaluate their fundraising activities, but this evaluation relates, mostly, to their own fundraising events. Only three of total number of analysed organizations evaluate the return on resources invested in fundraising. NGOs are the credibility of NGOs and the transparency of its activities. All the information concerning funding sources and use of sources are provided by NGOs participating in the research in annual reports, or certain essential information are published on NGOs' web sites.

### **CONCLUSION**

The results of the research in the Moravian-Silesian Region differ to some extent not only from results of national studies and from partial results of earlier studies by the author either. (Prouzová, Almani – Tůmová, 2013).

NGOs in the Moravian-Silesian Region use less funding sources and fundraising tools (mostly 3 or 4), and fundraising planning is made in a rather spontaneous than continuous way. NGOs in the Moravian-Silesian Region are more conservative in terms of implementing new fundraising trends, such as social networks, IT techniques, etc. Only 3 NGOs participating in the research use social networks, however, they do not use any other up-to-date fundraising tools. Nevertheless, a certain positive shift has been observed compared with the previous research by the author from 2012, both in terms of the increase of fundraising activities, number of funding sources or fundraising tools used, giving the opportunity to discuss the reasons of that positive phenomenon. The main reason is probably higher awareness of the significance

of multi-source funding and its planning as a condition for keeping the organization functional, in particular with current trend of decreasing funding from national and regional sources. Further, there is a trend of current popularity and fashion of fundraising, and thus greater awareness of interested employees of non-profit NGOs and general public. (Filipczyková, 2015).

It follows from the above, that although awareness of general public and employees of non profit organizations of the importance and techniques of fundraising has increased, current situation still cannot be considered to be good. Many organizations do not pursue fundraising systematically. Extent to which fundraising is used depends on the size and the structure of an organization. Most organizations use limited number of financing sources only, they rely rather, to a large extent, on government sources of financing. Organizations do not accept on a larger scale the principles of corporate social responsibility, as is usual abroad. For these reasons ongoing education of future and current employees in the non profit sector in fundraising must continue.

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